



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

DEC 15 1999

Honorable John Kasich
Chairman
House Budget Committee
House of Representatives
Washington, D.C. 20515-6065

Dear Chairman Kasich:

This is in reply to the joint letter of September 22, 1999, from the House Majority Leader, the Chairmen of the Senate Governmental Affairs Committee, Senate Budget Committee, House Government Reform Committee, and you on Department of Defense (DoD) management challenges. The joint letter requested that we update our previous assessments of the most serious management problems facing the DoD; identify related reports; summarize significant audit recommendations that address major problem areas; comment on progress made in implementing audit recommendations and correcting management problems; and identify programs that have had questionable success in achieving results.

This office's overall assessment of the Department's responsiveness to management problems is that the DoD has seldom before, if ever, been so committed to across the board management improvement. However, even after several years of concerted effort, much more needs to be done to cut costs and improve effectiveness.

The vast scope, complexity and related risks in most DoD operational and support functions pose a plethora of management challenges. To identify specific problems and to monitor improvement efforts, the Department performs a huge number of self-assessments, including thousands of internal audits and inspections annually. Those assessments include well over 200 audit and evaluation reports with about 1,000 recommendations each year from the Office of the Inspector General, DoD. In addition, the General Accounting Office (GAO) issues several hundred reports each year on DoD matters.

To respond to the problems identified by audits, management reform studies and other reviews, the DoD is carrying out many hundred major management improvement initiatives simultaneously. Cumulatively, and with continuous management emphasis, those initiatives should dramatically improve the efficiency of DoD support operations over the next several years. We also believe that, on an overall basis, the Department is being very

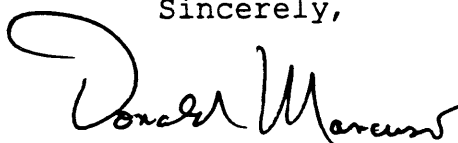
responsive to audit advice as it develops and carries out these management improvements. For example, managers agreed to take responsive action on 97 percent of the 2,040 audit recommendations made by this office during fiscal years 1998 and 1999.

The principal management challenges we have identified are:

1. Information Technology Management
2. Information Technology Security
3. Other Security Concerns
4. Management
5. Acquisition
6. Health Care
7. Supply Inventory Management
8. Other Infrastructure Issues
9. Readiness
10. Turbulence from Change

The detailed information that you requested is provided in the enclosures to this letter. If there are questions, please contact me or Mr. John R. Crane, Office of Congressional Liaison, at (703) 604-8324.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald Mancuso". The signature is fluid and cursive, with a large initial "D" and a stylized "M".

Donald Mancuso
Acting Inspector General

Enclosures

cc: Honorable John M. Spratt, Jr.
Ranking Minority Member

Detailed Response to Congressional
Request of September 22, 1999
on DoD Management Challenges

<u>Topic</u>	<u>Enclosure</u>
Changes to Previous Summary of Management Challenges	1
 <u>PRINCIPAL MANAGEMENT CHALLENGES</u>	
Information Technology Management	2
Information Technology Security	3
Other Security Concerns	4
Financial Management	5
Acquisition	6
Health Care	7
Supply Inventory Management	8
Other Infrastructure Issues	9
Readiness	10
Turbulence from Change	11
 <u>OTHER INFORMATION</u>	
Overage Open IG, DoD, Recommendations	12
Failing Programs	13
Broad Scope Documents Used in This Analysis	14

Changes to Previous Summary of Management Challenges

The reply of December 3, 1998 from the former Inspector General, DoD, to a letter from the House Majority Leader and Chairman, House Committee on Government Reform, listed the following 10 most serious DoD management problems:

1. Year 2000 Conversion
2. Other Information Technology Issues
3. Financial Management
4. Weapon System Acquisition
5. Other Procurement Issues
6. Health Care
7. Supply Inventory Management
8. Other Infrastructure Issues
9. Readiness
10. Turbulence from Change

In updating this assessment, we have made a few changes. First, we believe that the DoD has successfully met the challenge posed by the Year 2000 (Y2K) computing problem. Although some system failures may occur, they should not be sufficiently widespread or serious enough to hamper DoD mission performance to a major degree. This conclusion is based on DoD management actions taken on findings in well over 200 audits and inspections that monitored and validated the implementation of the DoD Year 2000 Management Plan. Although DoD needs to continue working on certain facets of the "Y2K" challenge, such as contingency planning and assuring host nation support abroad, and must be prepared to cope with unexpected developments through the first few months of calendar year 2000, we are removing Year 2000 Conversion from the list of top problems.

In our December 3, 1998, letter, we combined the major concern about the vulnerability of DoD information systems to unauthorized access with a description of DoD problems related to oversight of information system development. Congressional and DoD interest on both issues has continued to grow and we are breaking them out as separate problem areas in this package.

Other significant concerns have developed over the past 12 months related to the security protection of DoD information and US military technology. The Cox Commission Report on possible espionage in a Department of Energy laboratory and a joint review of export licensing processes by six Inspectors General identified numerous issues regarding export licensing policies and procedures. Also, the GAO reported serious problems with the timeliness and quality of DoD personnel security clearance investigations. In this package, we have combined these issue areas under a new heading, Other Security Concerns.

Finally, to streamline the package, we combined the discussions on weapon systems and other procurement under the heading of Acquisition.

Information Technology Management

Information technology is transforming both military science and business practices. The DoD operates about 10,000 mission critical or essential networks and is rapidly expanding its use of web-based technology for electronic commerce and other "paperless" functions. The annual budget for system development, procurement, operation and maintenance is about \$16 billion, but even that large figure does not fully portray the paramount importance of information systems to virtually every facet of managing the Armed Forces and their support establishment.

The DoD has recognized the need to complete the implementation of the Clinger/Cohen Act, in part because of increased congressional interest in turning around the long-standing problem of inadequate management control over information technology investments, standards and practices. The Defense Appropriations Act for Fiscal Year 2000 levied stringent new requirements on the Department to ensure a complete break with overly decentralized and often inefficient past practices for reviewing, approving, monitoring and funding information system acquisition projects. The IG, DoD, has worked with the Congress and the Department to identify past weaknesses and lessons learned regarding system acquisition, although audit coverage has been limited due to resource constraints and Y2K audit requirements. After the Y2K conversion is completed, we plan to put a very high priority on audits to support and fine tune the Department's management oversight processes in this vital area. Success in implementing effective management oversight processes will address the bulk of the system problems currently evident in the DoD. Those problems include: too many systems, block obsolescence, insufficient interoperability, security vulnerabilities, inconsistent budgeting and reporting, noncompliance with policies on data standardization, documentation and configuration management, user dissatisfaction, frequent system acquisition schedule slippage and cost overruns, and disconnects between evolving business practices and their supporting system projects.

In addition to improving management of system acquisition, the Department needs to modernize and cut support costs for communications and other information technology infrastructure. The Y2K conversion has forced the acceleration of efforts to replace and modernize various equipment, including DoD telecommunications switches throughout the world, and the increased awareness of the Department's dependence on information technology should focus more attention on infrastructure issues. Overcrowding of the radio frequency spectrum throughout the world presents a particularly difficult challenge to US planners and users of weapon and communication systems.

Enclosure 2

The DoD Information Management Strategic Plan, October 19, 1999, addresses a wide gamut of problems and implements many previous audit recommendations. In the near term, careful analysis of lessons learned from Y2K conversion is especially important for meeting other information technology management problems.

Related Reports Issued in 1999

House Report 106-371, Conference Report to Accompany H.R. 2561, Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 2000, and for Other Purposes, October 8, 1999

IG, DoD

Report No. 99-068, Acquisition Management of the Composite Health Care System II Automated Information System, January 21, 1999

Report No. 99-111, Commercial Satellite Leased Capacity, March 26, 1999

Report No. 99-140, Management of DoD Long-Haul Telecommunications Requirements, April 21, 1999

Report No. 99-166, Initial Implementation of the Standard Procurement System, May 26, 1999

Report No. 99-183, Acquisition Management of the Defense Commissary Information System, June 11, 1999

Information Technology Security

The heavy dependence of the U.S. public and private sectors on computer technology for processing sensitive information, controlling infrastructure ranging from air traffic control systems to power grids, and supporting modern communications makes information warfare an attractive strategy for hostile regimes and groups. Hackers view gaining access to and sometimes vandalizing Government information systems virtually as a sport and there is a significant threat that criminals will exploit information system security weaknesses to steal privileged information or funds. The Defense Information Systems Agency states that over 18,000 cyber attacks against DoD were detected in FY 1999, a three fold increase over the previous year. The increase is probably attributable to more effective detection as well as more activity.

The DoD internal audit community, GAO and other reviewers have outlined DoD information assurance challenges in numerous reports. To meet those challenges, the Department needs to consolidate and update policy guidance; establish better management control over the many separate efforts now under way or planned; develop reasonable program performance measures; ensure full attention to information assurance concerns in new system development and electronic commerce initiatives; intensify on-site information security inspection and audit efforts; and improve training for technical personnel, security officers and system users. The DoD is turning increased attention to these matters, but a sustained effort will be needed on a continuous basis for the foreseeable future. The DoD audit and investigative communities are developing various arrangements with DoD management to provide support in this vital area.

Related Reports Issued in 1999

IG, DoD

Report No. 99-069, Summary of Audit Results--DoD Information Assurance Challenges, January 22, 1999

Report No. 99-083, Application Controls Over the Retiree and Casualty Pay Subsystem at DFAS Cleveland Center, February 19, 1999

Report No. 99-107, Computer Security for the Defense Civilian Pay System, March 16, 1999

Report No. 99-110, Application Controls Over the Annuitant Pay Subsystem at the DFAS Denver Center, March 23, 1999

Report No. 99-128, Computer Security for the Defense Civilian Pay System II, April 7, 1999

Report No. 99-137, Selected General and Application Controls for Systems Supporting NSA and DIA FY 1998 Financial Statements, April 21, 1999

Report No. 99-225, Electronic Data Processing General Controls for the Defense Property Accountability System, July 29, 1999

Report No. 99-233, General Controls for the General Accounting and Finance System, August 17, 1999

Report No. 00-005, Information Assurance for the Joint Total Asset Visibility System, October 8, 1999

Report No. 00-008, Data Processing Control Issues for the Military Retirement Trust Fund, October 14, 1999

Report No. 00-009, Information Assurance for the Joint Total Asset Visibility System at U.S. Pacific Command, October 14, 1999

Other Security Concerns

Personnel Security. In addition to the challenge of preventing unauthorized access by outsiders to information systems, during 1999 the DoD received new indications that its procedures for minimizing security risks from within its own workforce and contractor personnel also needed improvement. In October 1999, the GAO reported severe problems at the Defense Security Service (DSS), which handles DoD personnel security investigations and reports to the Assistant Secretary of Defense (Command, Control, Communications and Intelligence). The GAO faulted both the timeliness and quality of DSS investigations. About 600,000 individuals holding clearances were overdue for reinvestigations in mid-1999. The DoD agreed with all GAO recommendations and replaced the Director, DSS. We are following up on the agreed-upon recommendations and attending periodic DSS management reviews on the status of corrective actions.

Technology Transfer and Export Licensing. The United States Government controls the export of certain goods and technologies by requiring export licenses for specific dual-use commodities or munitions. In the wake of the Cox Commission Report and other disclosures, congressional and media attention has focused on the dangers to national security posed by an export licensing process that is often alleged to favor commerce over national security. Meanwhile, Defense industry and friendly countries are critical of the current slow and unpredictable license review procedures.

The Government needs an export licensing and technology transfer program that protects critical military capabilities through timely and reasonable reviews but also supports Defense cooperation with allies and friends. In an effort to strengthen security and export controls and to speed up the review process, the Deputy Secretary of Defense approved an Arms Transfer/Technology Transfer White Paper on September 30, 1999, to reengineer the DoD process for reviewing license applications. However, the DoD cannot unilaterally revamp the multiagency license review process and attaining interagency consensus in this area is very difficult.

Additional challenges facing DoD in this arena include determining personnel resources requirements and addressing the marginal adequacy of the Foreign Disclosure and Technical Information System (FORDTIS), the principal automated tool for DoD export control analysts. The audit trail provided by FORDTIS is incomplete and the review process is insufficiently documented. The DoD also has no overall capability for analyzing the cumulative effect of exports and other technology acquisitions upon other countries' military capabilities, even though this information is critical to evaluating risks inherent

in proposed exports. In comments on an IG, DoD, draft report, the Department generally agreed with our recommendations for process improvements; however, management has not responded to the final report, which was issued on June 18, 1999.

Related Reports Issued in 1999

Interagency Review of the Export Licensing Processes for Dual-Use Commodities and Munitions, June 18, 1999

IG, DoD

Report No. 99-186, Review of the DoD Export Licensing Processes for Dual-Use Commodities and Munitions, June 18, 1999

GAO

GAO/NSIAD-99-231, Foreign Military Sales Review Process for Controlled Missile Technology Needs Improvement, September 1999

GAO/NSIAD-00-12, DoD Personnel: Inadequate Personnel Security Investigations Pose National Security Risk, October 1999

Financial Management

Financial Reporting. The DoD continues to be unable to prepare financial statements that can withstand the rigors of audit for most individual major funds and the overall Department. For FY 1998, as in previous years, only the Military Retirement Trust Fund received a favorable audit opinion. The DoD financial statements for FY 1998 were less timely than ever and a record \$1.7 trillion of unsupported adjustments were made in preparing the statements. The lack of adequate systems continues to be the major impediment to achieving favorable audit opinions and producing reliable financial reporting. Major changes are necessary to ensure that over 200 complex accounting and feeder systems can produce auditable data. For this reason, DoD does not expect a significant difference in the overall results of financial statement audits for several more years.

Some progress toward compliance with the Chief Financial Officers Act and new Federal accounting standards was evident during the past year. The Office of Management and Budget, the GAO, the DoD Chief Financial Officer and the IG, DoD, have worked together to develop sound action plans and approaches, with mostly good results. Contracts were awarded to bring private sector expertise to bear on certain significant property valuation issues, to assist in more timely compilation of financial statements and to help implement previous audit recommendations. Management agreed to take responsive action on 298 of 300 IG, DoD, financial audit recommendations.

The DoD made a credible attempt to meet several congressional reporting requirements with the first Biennial Financial Management Improvement Plan, September 1998. In April 1999, we reported our assessment of the Plan. Its primary weakness was lack of information on the status of efforts to achieve compliant systems. In turn, this lack of specific data indicates insufficient overall DoD management control over the financial systems remediation process. The Department agreed with our recommendation to adopt lessons learned from the Year 2000 conversion regarding a central management plan, standardized reporting for every system and periodic senior management review. However, implementation of that concept has been slow.

Other Finance Challenges. Audits continue to indicate problems related to cash management and rate setting in the DoD working capital funds, inaccurate or untimely recording of obligations and disbursements in accounting records, and inability to eliminate unmatched disbursements. In addition, internal controls in disbursing offices need improvement to reduce

vulnerability to fraud. As of September 30, 1999, the Defense Criminal Investigative Service had 85 open financial fraud cases. We have worked closely with the Defense Finance and Accounting Service through 1999 to improve their fraud control program.

Related Reports Issued in 1999

IG, DoD

Report No. 99-123, Assessment of the DoD Biennial Financial Management Improvement Plan, April 2, 1999

Report No. 99-135, Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements, April 16, 1999

Report No. 00-023, Compilation of Defense Reutilization and Marketing Service Operating Results, October 28, 1999

Report No. 00-030, Recording Obligations in Official Accounting Records, November 4, 1999

Report No. 00-041, Deficiencies in FY 1998 DOD Financial Statements and Progress Toward Improved Financial Reporting, November 26, 1999

GAO

GAO/AIMD-99-19, Financial Management: Problems in Accounting for Navy Transactions Impair Funds Control and Financial Reporting, January 19, 1999

GAO/HR-99-2RB282357, High Risk Series: Defense Financial Management, April 12, 1999

GAO/AIMD-99-44, Financial Management: Analysis of DoD's First Biennial Financial Management Improvement Plan, January 29, 1999

Acquisition

In fiscal year 1999, the DoD purchased about \$135 billion in goods and services, using more than 250,000 contracts, grants, cooperative agreements and other transactions. Because of its huge scale and impact on US military capability, the DoD acquisition program always has been controversial. There have been nearly continuous reform efforts over the past 20 years to reduce costs and acquisition lead time or to address the plethora of other issues present in this area.

Resource constraints, numerous mandates and requests for internal audits in other management areas, and the long-standing comparative reluctance of DoD acquisition officials to request audits have severely curtailed internal audit coverage over the last few years. This is particularly true for the several hundred ongoing weapon system acquisition programs. Although the largest of those programs are frequently audited by the General Accounting Office, very few of the small and medium size programs are receiving audit coverage. Available resources are insufficient to support a program of systematic, comprehensive auditing based on risk analysis.

Similarly, the 39 percent reduction of the Defense Contract Audit Agency between 1990 and 1999 has limited contract audit coverage. The pending IG, DoD, Semiannual Report to Congress for the Period Ending September 30, 1999, discusses what measures have been taken to minimize the impact of that reduction.

Although we do not have current audit results on many acquisition programs, issues and initiatives, we have been active in numerous DoD acquisition reform process action teams and task forces. We have carefully reviewed and commented extensively on proposed acquisition legislation and regulatory changes. We have also performed indepth audits of some of the acquisition issues that are of particular interest to the Department and Congress. Those issues include spare parts pricing, defense industry consolidation, and the use of multiaward task order contracts.

Acquisition Laws, Regulations and Metrics. The IG, DoD, supported the acquisition reform laws passed during the 1990's. Ideas on further refinements to those laws and others governing DoD acquisition practices should be welcomed and fully considered. However, we urge that the primary focus for the near term be on fully implementing and carefully measuring the impact of the recently enacted changes, as opposed to proposing more changes just to maintain a sense of momentum.

Determining the impact of the enacted legislative and regulatory changes and of numerous ongoing acquisition initiatives is often hampered by slow implementation actions, insufficient experience to date using the new practices, uncertainty on whether implementation was complete or properly done, a lack of specified performance metrics and the absence of independent validation of reported results. The Department recently hired a contractor to identify the data needed for adequate acquisition process metrics and the systems to be used to collect that data. This is a welcome initiative, but we caution that internal control weaknesses are endemic in DoD management information systems and reporting processes, making data quality a significant additional consideration.

Prices Paid for Spare Parts. Audits continue to indicate problems in the Department's attempts to comply with reform legislation, specifically in the area of adopting commercial type buying practices and establishing equitable business relationships with contractors for spare parts. When genuine competition exists, market forces drive prices down. When competition is limited or does not exist, however, no equivalent market forces exist and in sole-source purchasing the Department continues to frequently pay exorbitant prices.

Our audit coverage over the past two years has been concentrated in the historically high risk area of aviation spares, but the same problems likely pervade many other commodity areas. The DoD has been slow in providing adequate guidance and training to contracting officers. There continues to be too much emphasis on weakening the Truth in Negotiations Act, the primary safeguard of the Government's interest when competition is lacking. On the other hand, the Department is attempting to establish more reasonable, long term arrangements with several key suppliers and useful models may result from those efforts. We will issue additional reports on this matter over the next few months.

Other Issues. Throughout the 1990's, most acquisition reform emphasis was on systems and hardware procurement. The DoD has realized that purchasing services, such as management consulting, information system maintenance, testing support and environmental cleanup, deserves equal emphasis. We believe that, in many ways, services are intrinsically harder to contract for than are systems or equipment. We are gratified by the quick response of the Congress, Office of Federal Procurement Policy and DoD to our report that multiple award task order contracts were being misused to avoid competition. We will issue additional audit reports on services contracts during FY 2000. Likewise, we are assessing the impact of downsizing on the DoD acquisition work force.

Related Reports Issued in 1999

Cost Accounting Standards Board Review Panel, Report on the Cost Accounting Standards Board and Its Mission, April 2, 1999

IG, DoD

Statement by the Honorable Eleanor Hill, Inspector General, DoD, to the Senate Armed Services Committee Regarding Acquisition Reform in the Department of Defense, March 17, 1999

Report No. 99-116, DoD Use of Multiple Award Task Order Contracts, April 2, 1999

Report No. 99-154, Defense Contract Management Command Support to System Acquisition Program Managers, May 12, 1999

Report No. 99-156, Evaluation of the Effect of the Boeing, Rockwell and McDonnell Douglas Business Combination on Pension Plans and DoD-Funded Pension Assets, May 13, 1999

Report No. 99-217, Sole-Source Commercial Spare Parts Procured on a Requirement Type Contract, July 21, 1999

Report No. 99-218, Sole-Source Noncommercial Spare Parts Orders on a Basic Ordering Agreement, July 23, 1999

GAO

GAO/NSIAD-99-90, Contract Management: DoD Pricing of Commercial Items Needs Continued Emphasis, June 1999

Health Care

The Military Health System (MHS) costs nearly \$16 billion annually and serves approximately 8.2 million eligible beneficiaries through its health care delivery program, TRICARE. TRICARE provides health care through a combination of direct care at Military Department hospitals and clinics and purchased care through managed care support contracts. The MHS has dual missions to support wartime deployments (readiness) and provide health care during peacetime.

The MHS faces three major challenges: cost containment, transitioning to managed care, and data integrity. These challenges are complicated by the inadequate information systems available to support the MHS.

Cost containment within the MHS is challenged by the continued lack of good cost information combined with significant levels of health care fraud. Lack of comprehensive patient-level cost data has made decisions regarding whether to purchase health care or to provide the care at the military treatment facility more difficult.

Data integrity in management information systems has been a persistent problem that affects both health care program effectiveness and efficiency. The lack of complete and accurate data has resulted in an inability to clearly identify health care costs, identify unit and individual readiness for deployment, or coordinate direct health care with purchased health care. DoD management has put considerable emphasis on improved data quality and significant progress is being made.

To combat health care fraud, the Defense Criminal Investigative Service has developed an active partnership with the TRICARE Management Activity to give high priority to health care fraud cases, which comprise a growing portion of the overall investigative workload. As of September 30, 1999, we had 531 open criminal cases in this area.

Transitioning to managed care is a critical element in peacetime health care delivery. The issue is complicated by a lack of understanding about TRICARE, multiple TRICARE programs offering similar but not identical benefits, and increased focus on providing peacetime health care to the aging retiree population. An audit of the TRICARE marketing program showed that while the level of beneficiary understanding of TRICARE is increasing, DoD has provided Service members with incomplete, incorrect, or inconsistent information. In addition, with increased base and hospital closures and military downsizing, more and more older

beneficiaries (those eligible for Medicare but not DOD-purchased health care) find themselves without accessibility to direct care resources. Attempts to address that problem have led to a proliferation of health care demonstration programs that have further confused the eligible population.

There are two ongoing efforts designed to identify peacetime and wartime staffing requirements to support the MHS--the "Section 733 Update: Report of the Working Group on Sustainment Base and Training" and the "MHS Optimization Plan." As the MHS transitions to managed care, it must ensure that readiness requirements are not negatively impacted by peacetime health care delivery decisions. In FY 2000 an audit of deployable medical systems will support assessing medical wartime requirements.

Related Reports Issued in 1999

Inspector General, DoD

Report No. 99-127, Data Supporting the FY 1998 Military Retirement Health Benefits Liability Estimate, April 7, 1999

Report No. 00-016, TRICARE Marketing, October 21, 1999

GAO

T-HEHS-99-81, Defense Health Care: Management Attention Needed to Make TRICARE More Effective and User-Friendly, March 11, 1999

HEHS-99-142, Defense Health Care: Improvements Needed to Reduce Vulnerability to Fraud and Abuse, July 1999

Supply Inventory Management

Although DoD has substantially downsized its force structure, it has not reduced operations and support costs commensurately. However, the Department is pursuing over 300 logistics reform initiatives, many of which involve supply inventory management. The DoD intends to consolidate management of inventory functions and reduce warehousing requirements; reengineer DoD product support activities; adopt best business practices that include world-class standards of logistics performance; implement electronic commerce; and improve response times for delivering goods and services to customers by expanding the use of prime vendors, virtual prime vendors, and direct vendor delivery. Determining appropriate requirements for materiel to be managed and stocked, identifying and canceling purchases of excess materiel, eliminating unnecessary items from inventory and distributing items more efficiently are areas that need improvement. In addition, spare parts shortages are being reported by operational units and repair depots, total asset visibility initiatives remain incomplete and inappropriate disposal practices continue to be a problem for the Department. Accordingly, supply inventory management remains a high risk area.

Inventory Reduction. The Department has reduced wholesale supply stocks by almost one half over the last 10 years, from about \$107 billion in 1989 to a current estimate of \$55 billion. Nevertheless, an FY 1999 GAO report states that about 60 percent of the total on-hand secondary inventory in FY 1997 exceeded DoD requirements. The DoD disagrees with the GAO figure, but it is clear that further improvement is needed in inventory management. The gradual transition from just-in-case to just-in-time supply support practices is reducing logistics costs, but operating units and repair depots are raising concerns about spare parts shortages. The problem is worst for Air Force aircraft, whose mission capable rates have declined to 73 percent. The DoD needs to do a better job of forecasting requirements, making smart procurement decisions to achieve economical order quantities, executing spare part budgets, reducing repair cycle times and implementing information systems that are crucial to effective and efficient inventory management.

Munitions Disposal. The Department has vulnerabilities in preventing public access to live ammunition, explosives, and other dangerous residue cleared from military ranges. An IG, DoD, evaluation of the munitions disposal process led to multiple recommendations to the Department in September 1997 to tighten procedures and controls for clearing ranges and disposing of munitions. Although conditions at the ranges and

in the disposal process warranted immediate attention, and the Secretary of Defense designated the handling of unexploded ordnance a material management control weakness in January 1999, the cognizant DoD level offices were still determining responsibility for issuing guidance in September 1999. Fortunately, ongoing follow-up indicates that many installations and commands are taking corrective action despite the continued lack of DoD guidance.

Other Property Disposal. Although the wave of property disposal caused by force structure and inventory reductions in the early to mid-1990's has abated, the widely dispersed and still high volume DoD disposal operations continue to pose a variety of challenges. The Department's efforts to improve asset visibility and requirements determination should help minimize the instances of needed items being sent to disposal, but more effective demilitarization practices are needed. This area remains vulnerable to criminal schemes, as indicated by the 57 open Defense Criminal Investigative Service cases involving disposal activities as of September 30, 1999.

Related Reports During 1999

DoD Product Support Reengineering Implementation Team Report, Product Support For the 21st Century, July 1999

Statement of the Commander, Air Force Materiel Command, before the House Armed Services Committee, October 7, 1999

Inspector General, DoD, Reports

Report No. 99-024, Contract Terminations at Defense Industrial Supply Center and Defense Supply Center Philadelphia, October 29, 1999

Report No. 99-101, Logistics Response Time for the Direct Vendor Delivery Process, Defense Supply Center, Columbus, March 4, 1999

Report No. 99-108, Logistics Response Time for the Direct Vendor Delivery Process, Defense Supply Center, Richmond, March 17, 1999

Report No. 99-159, Interservice Availability of Multiservice Used Items, May 14, 1999

GAO Reports

GAO/NSIAD-99-60, Defense Inventory: Status of Inventory and Purchases and Their Relationship to Current Needs, April 1999

GAO/NSIAD-99-61, Defense Inventory: Navy Procedures for Controlling In-Transit Items Are Not Being Followed, March 1999

GAO/NSIAD/AIMD-99-77, Air Force Supply: Management Actions Create Spare Parts Shortages and Operations Problems, April 1999

GAO/T/NSIAD-99-83, Defense Inventory: Continuing Challenges in Managing Inventories and Avoiding Adverse Operational Effects, February 1999

GAO/NSIAD-99-217, Defense Inventory: Improved Management Framework Needed to Guide Army Best Practice Initiatives, September 1999

GAO/NSIAD-00-1, Defense Inventory: Improved Management Framework Needed to Guide Navy Best Practice Initiatives, October 1999

Other Infrastructure Issues

In addition to adopting more modern and efficient supply processes, the DoD needs to improve a wide variety of other support activities. These include maintenance, transportation and facilities functions. For purposes of this discussion, the facilities area includes base structure, military construction, real property operations and maintenance, and environmental cleanup. The common challenge in these areas is how to cut costs to reduce the current imbalance between DoD administrative and other support costs on the one hand, and modernization and operations requirements on the other.

Maintenance. Disagreements between the DoD and Congress about depot maintenance outsourcing remain a problem, but the Department has moved forward on numerous public/private partnering arrangements that are promising. The Services are also attempting to streamline maintenance operations at other levels and the weapon system acquisition process is now geared toward expanded contractor life cycle support, which should be more economical. The Department has additional opportunities for management improvement and efficiencies by consolidating requirements for maintenance and repair contracts, implementing better performance measures, restructuring and modernizing management information systems, better accounting for depot maintenance workloads, and collecting more reliable cost information.

Transportation. Although worldwide transportation costs have dropped during the 1990's, DoD costs have not shown proportionate decreases. Numerous initiatives are under way to address that problem. These include implementing a commercial, off the shelf, online, freight management and payment system (Powertrack) to replace the enormously inefficient, paper intensive, transportation vendor pay practices that currently create serious vulnerability to fraud. In the controversial area of household goods shipments, three pilot reform programs are ongoing. We are auditing the Powertrack system effort and the household goods pilot programs, at the request of DoD managers.

Facilities. The DoD is still burdened with the cost of operating more bases than are needed to support the force structure; however, the Congress did not grant the DoD requests in the last two budgets for additional base realignment and closure authority. Because concerns over the affordability of upfront closure costs in the near term were part of the reason for disapproving the DoD requests, it is still likely that an agreement will be reached on more closures at some future date.

In addition to eliminating underutilized installations, the DoD needs to keep working to avoid unnecessary facilities investments and stretch available construction dollars as far as possible. Accurate and consistent requirements determination for both family and unaccompanied personnel housing is particularly important, since the DOD plans to spend over \$20 billion in that area to ensure an adequate quality of life for Service members and their families. The DOD is also faced with heavy costs because of the hazardous waste products from the maintenance, repair and disposal of many current weapon systems, as well as ground and water cleanup at active, closing and closed bases. The Department is putting considerable emphasis on cost containment in this area, but more needs to be done.

Related Reports Issued in 1999

Inspector General, DoD

Report No. 99-192, Depot Maintenance Capacity and Utilization Management, June 23, 1999

Report No. 99-203, Status of Implementation of the Pilot Program on Sales of Manufactured Articles and Services of Army Industrial Facilities, July 8, 1999

Report No. 99-239, DoD Unaccompanied Enlisted Personnel Housing Requirements Determination, August 20, 1999

Report No. 99-249, Implementation of Innovative Technology for DoD Environmental Cleanup Programs, September 9, 1999

Report No. 99-250, Construction and Rehabilitation of Reserve Component Indoor Small Arms Ranges, September 13, 1999

Report No. 99-251, The Army Environmental Program in Germany, September 15, 1999

GAO

GAO/NSIAD-90-40, Defense Inventory: DoD Could Improve Total Asset Visibility Initiative with Results Act Framework, April 1999

GAO/NSIAD-99-63, Air Force Depot Maintenance: Management Changes Would Improve Implementation of Reform Initiatives, June 1999

GAO/NSIAD-99-154, Depot Maintenance: Workload Allocation Reporting Improved, but Lingered Problems Remain, July 1999

GAO/NSIAD-99-169, Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative, August 1999

GAO/NSIAD-99-199, Depot Maintenance: Status of Navy's Pearl Harbor Pilot Project, September 1999

GAO/NSIAD-00-19, DoD Competitive Sourcing: Plan Needed to Mitigate Risks in Army Logistics Modernization Program, October 1999

GAO/NSIAD-00-20, Depot Maintenance: Army Report Provides Incomplete Assessment of Depot-type Capabilities, October 1999

Readiness

The difficulty of maintaining sufficient military readiness at constrained budget levels has been the subject of congressional hearings and public dialogue for the past several years. In addition to financial problems, the readiness posture is affected by the changing threat environment, which now includes bona fide information warfare threats and concerns about weapons of mass destruction in the hands of terrorists. However, increased operating tempo (OPTEMPO) has probably had the most significant impact on readiness, affecting mission-capable rates, personnel retention, spare parts availability, unit training, and possibly the inability to meet recruiting goals.

Since the end of the Cold War, the frequency of U.S. military involvement in operations other than war has increased, while force structure and military end-strength have been reduced. This OPTEMPO has adversely affected the combat capability of deployed units in Bosnia and Southwest Asia as well as some units that remain at home station, as they have to pick up the work of the deployed units and transfer personnel, equipment and spare parts to them. Aircraft participating in deployments are being flown more hours than is the case during regular training missions. It is estimated that some wings are putting about 2 years worth of flying hours on aircraft in about 6 months during their Southwest Asia deployments. This accumulation of flying hours, combined with the age of some types of aircraft, has revealed wear and maintenance problems that are not typical, particularly on the F-15C and the A-10 aircraft. The pace of these deployments is also, at least in part, causing aircraft mission-capable rates to decline and the increased consumption of parts has exacerbated existing parts shortages, causing cannibalization rates to increase. The logistics problems affecting many units, especially in the Air Force, were discussed previously under Supply Inventory Management (Enclosure 9).

Training is a key factor in readiness. The Air Force in particular indicates that aircrew combat proficiency may be declining partly due to frequent and recurring deployments. F-15 and F-16 fighter squadron personnel, particularly those participating in Operation Southern Watch in Southwest Asia, frequently described their mostly routine missions as having little combat training value. For the Army, especially at battalion, brigade, and division levels, current peacekeeping operations detract from the Army's established training cycle to sustain highly trained and combat-ready teams. While in Bosnia, armored and mechanized infantry units generally do not conduct any armored maneuver operations and are relieved from tank and Bradley gunnery requirements. Training deficiencies

threaten skills which are extremely perishable. Returning units to their wartime mission capability levels during peacetime is also a problem, taking from several weeks for some support units to more than a year for some combat units. In addition, entire units are not always deployed. As a result of deploying partial units, the nondeployed portions lack the officers and senior noncommissioned officers needed to train more junior soldiers, cannot conduct training above the small unit and individual soldier level, and have to do not only their work but that of the deployed portion of the unit.

Accurate reporting of unit level readiness also remains a concern. The Global Status of Resources and Training System (GSORTS) indicates that the readiness of units engaged in these deployments in all of the Services has been adversely affected. These effects are particularly evident in Army lower unit level readiness ratings, although division level ratings have recently received much publicity. However, important information about a unit's condition is not always readily apparent in GSORTS and sometimes not reported at all. Actual unit conditions are masked by factors such as the counting of temporarily assigned personnel against wartime manning requirements, optimistically estimating training status, and inconsistent reporting.

Audits have indicated various readiness weaknesses related to chemical and biological defense preparedness and communications capability. Other readiness indicators, such as reported backlogs of equipment and real property for maintenance and repair, are notoriously unreliable. There is extensive activity under way to address those problems; however, audit and inspection coverage of the usual readiness issues has been very limited during 1999, mostly due to the need to monitor Y2K conversion status.

Related Reports Issued in 1999

IG, DoD

Report No. 99-102, Chemical and Biological Warfare Defense Resources in the U.S. European Command, March 4, 1999

Report No. 99-111, Commercial Satellite Leased Capability, March 26, 1999

Report No. 99-113, Nondeployable Naval Reserve Component Personnel, March 24, 1999

GAO

NSIAD/AIMD-99-77, Management Actions Create Spare Parts Shortages and Operational Problems, April 1999

NSIAD-99-69, Impact of Operations Other Than War on the Services Varies, May 1999

NSIAD-99-151, Analysis of Potential Emergency Response Equipment and Sustainment Costs, June 1999

NSIAD-99-160, Coordination of Nonmedical Chemical and Biological R&D Programs, August 1999

NSIAD-99-197BR MilPers: Perspectives of Surveyed Service Members in Retention Critical Specialties, August 1999

NSIAD-99-211, Actions Needed to Better Define Pilot Requirements and Promote Retention, August 1999

Turbulence from Change

In the previous discussions on individual problem areas, we discussed the many process reengineering, modernization and streamlining efforts underway throughout the Department. There has been no period since the early days of World War II, when the US War Department transitioned from being overseer of a tiny armed force to being responsible for the most powerful military establishment in the world, when the Department has been involved in so many simultaneous changes. Turbulence is evident in the international political sphere, with the resultant demand for unprecedented numbers of peacetime US military deployments; the enormously rapid advance of technology, with the resultant changes in the nature of both threats and opportunities; and the sheer number of DoD improvement initiatives, which are expanded almost daily by hundreds of process action teams, task forces, integrated product/process teams and management reform offices. In addition, downsizing and outsourcing pressures create additional instability and management challenges.

There are high stakes involved in the DoD efforts to implement fundamental reform in each functional area, and in all cases there is a need to push ahead vigorously and expeditiously. Nevertheless, it must be recognized that the nature, scope, and duration of the DoD reform effort create a number of significant management challenges in their own right. Those challenges include:

- maintaining high workforce morale and productivity;
- continuously retraining the workforce to ensure they have adequate command of constantly changing rules and processes;
- harmonizing the multitude of changes and initiatives so that they do not conflict with each other;
- measuring the results of each initiative and getting objective feedback to validate reported performance; and
- maintaining appropriate emphasis on internal controls and accountability.

Wholesale change in DoD is necessary and feasible. At the same time, it must be acknowledged that there is heightened risk of fraud and waste in any large organization undergoing wholesale change, especially over a prolonged period. In the DoD at the present time, that risk is heightened by severe cuts

in DoD audit and investigative resources, particularly for the OIG, DoD. Between 1995 and 1999, our funded workyears were reduced by 26 percent, while mandated and requested workload simultaneously increased. The Department reconsidered further significant cuts that had been planned for FY 2000 through 2004, but the Congress cut our FY 2000 appropriation request. During FY 2000, the combination of that reduction and the continuing need for full scale audit support of Y2K conversion during the first quarter has hampered our efforts to increase oversight coverage and help reduce risk.

STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE OPEN AUDIT RECOMMENDATIONS (As of December 1, 1999)				
High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99	
Information Technology Management	95-292 Tactical Intelligence Dissemination Systems and Radios, 8/17/95	Standardization of message reporting formats.	Complexity of task and extensive coordination required. Program slipped one year and will require additional \$21M to complete. Two PMs were relieved and new PMs identified.	
	96-008 Section 8023 Certification of Automated Information Systems, 10/13/95	Navy conduct Antideficiency Act violation investigation.	Awaiting General Counsel opinion on Navy report.	
	96-033 White House Communications Agency (WHCA), 11/29/95	Establish a complete and accurate inventory of WHCA telecommunications equipment and services.	Inventory 93% complete. Estimated completion 12/99.	
	96-219 Allegations to the Defense Hotline Concerning the Standard Procurement System (SPS), 9/5/96	Establishment of Shared Data Warehouse (SDW) for the SPS.	SDW requirements relate to the exchange of information between the procurement and the accounting and finance communities; estimated to be long-term effort.	
	97-154 Functional Transfer of Navy Base Communications Offices, 6/11/97	Complete consolidation of all base communications offices under Naval Computer and Telecommunications Command.	Implementation of functional transfer program (or approved exceptions based on memorandum of understanding) in process.	
	98-023 Implementation of the DoD Joint Technical Architecture (JTA), 11/18/97	Develop methodology for cross-service and cross-functional coordination of DoD component JTA implementation plans.	Difficulty in DoD-wide coordination.	
	98-135 Implementation of the Defense Property Accountability System (DPAS), 5/18/98	Implement the Defense Property Accountability System	OUSD(C) has four ongoing initiatives that have a direct effect on the DPAS. DoDIG is actively involved with the initiatives.	
	99-009 Coordination of Electromagnetic Frequency Spectrum and International Telecommunications Agreements (ITA), 10/9/98	Clarify requirements for spectrum coordination with host nations and strengthen oversight ITA. Exchanges cease selling unauthorized equipment overseas.	ASD (C31) is staffing appropriate guidance and has formed a team to study ITA issues. Navy Exchange Service Command is developing plan to prevent unauthorized sales.	

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Information Technology Security	96-175 Computer Security Over the Defense Joint Military Pay System (DJMS), 6/25/96	Computer security measures such as defining, controlling, and monitoring user access to DJMS and organizational placement of the Information Systems Security Officer are needed.	Defense Finance and Accounting Service revising memorandum of agreement to address computer security issues. Information Systems Security Officer has been assigned and organizationally aligned.
	97-203 Application Controls Over the Defense Joint Military Pay System Reserve Component, 8/15/97	Implement system software changes; and obtain written assurance of compliance with security directive from each center director.	Priority problems with system changes; delay in written assurances under review.
	97-216 Security Over Networks Used to Transmit US Special Operations Command Financial Data, 9/18/97	Conduct risk analysis on unclassified networks used to access financial applications; and enter agreements with interfacing network owners to specify security responsibilities.	Problems uncovered in conduct of risk analysis being addressed. Difficulty in establishing responsibility for identified problems.
	98-082 Information Assurance of the Defense Civilian Personnel Data System, 2/23/98	Certification of the Defense Civilian Personnel Data System (DCPDS).	Delays in completion of the DCPDS Continuity of Operations Plan.
Other Security	97-134 Disposal of Munitions List Items in the Possession of Defense Contractors, 4/22/97	Change regulations to advance identification of munitions list items to the early stages of the acquisition process.	Department policy is under development. Defense Federal Acquisition Regulation Supplement change is pending issuance of DoD Demilitarization Manual. Estimated completion 8/00.
	98-067 Access Reciprocity Between DoD Special Access Programs, 2/10/98	Standardize Special Access Program (SAP) eligibility implementing criteria; develop a centralized SAP database; and train cadre of SAP adjudicators.	Cumbersome policy making process.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Security	98-124 Department of Defense Adjudication Program, 4/27/98	Standardize forms; implement peer review program and professional certification for adjudicators; and improve use of Defense Clearance Investigation Index.	Corrective actions in process, extensive time required to implement recommended actions.
	98-214 Implementation of the DoD Technology Transfer Program, 9/28/98	Implement technology transfer policies and review former transfers of technical data for reliability.	Time required to coordinate a plan for evaluating policy implementation.
	99-186 DoD Export Licensing Processes for Dual-Use Commodities and Munitions, 6/18/99	The Office of the Under Secretary of Defense for Policy (OUSDP) has not provided a final response to recommendations involving guidance, training and database initiatives in support of the licensing process for dual-use commodities and munitions.	The OUSDP (P) has provided a draft response. The official response is in final review and signature.
Financial Management	95-244 Processing and Distribution of Combined Federal Campaign Payroll Deductions for Military Personnel, 6/21/95	Implement procedural and system changes to adjust incorrectly distributed payroll deductions.	Defense Finance and Accounting Service (DFAS) work on other legislative requirements prevented completion of action. After legislative changes are implemented, DFAS will request a system change.
	93-164 Financial Statements of the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund (Defense Fuel Supply Financial Data) for FY 1992, 9/2/93	Automation of accounts reconciliation process.	Delays continue associated with developing, funding and testing of an automated reports generation process.
	94-052 Contributions and Financial Reporting for the DoD Education Benefits Trust Fund, 3/11/94	Update DoD Instruction 1322.17 to include procedures for counts of individuals eligible for Montgomery GI Bill benefits and fund contributions.	Delays in formal staffing and coordination of update to the DoD instruction.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Financial Management	94-054 Fund Control Over Contract Payment at the Defense Finance and Accounting Service - Columbus Center, 3/15/94	Improve fund control over contract payments.	Basic incompatibilities between accounting and contracting systems will persist for several more years. An electronic interface between existing systems is being tested and may be on-line by 12/31/99.
	94-062 Financial Status of Air Force Expired Year Appropriations, 3/18/94	Changes to policy guidance to include refunds receivable arising from matters in litigation.	Cumbersome policy making process.
	94-073 Defense Finance and Accounting Service Work on the Air Force FY 1992 Financial Statements, 3/31/94	Develop transaction-driven general ledger system.	Slow system development process.
	94-185 Antideficiency Act Investigation of Real Property Maintenance, Defense FY 1993 Supplemental Appropriation, 9/9/94	Compliance requirements to be published in Financial Management Regulation.	Cumbersome policy making process.
	95-025 Distribution of Proceeds from the Sale of Reimbursable Scrap Material, 11/8/94	Revision to regulation, regarding the recoupment of selling expenses before distributing sales proceeds.	Complex coordination process used in revisions.
	95-220 Financial Statements of the Defense Logistics Agency Reutilization and Marketing Service Business of the Defense Business Operations Fund for FY 1994, 6/5/95	Update Financial Management Regulation to include guidance for funding the Defense Reutilization and Management Service (DRMS) to cover expenses incurred in the disposal of excess property.	Action could not be taken until implementing legislation was passed (PL 205-261, 10/17/98). Guidance addressing DRMS recovery of expenses incurred in disposal of excess property is in coordination.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Financial Management	95-235 Financial Status on Army Expired Appropriations, 6/14/95	Revise policy in DoD 7220.9-M, the "DoD Accounting Manual," clarifying the use of commitments and reserves to pay for contingent liabilities.	Policy on the CFO Act is evolving and agreement on accounting guidance and procedures is difficult.
	95-259 Internal Controls for the Military Sealift Command Portion of the Transportation Business Area of the FY 1994 Defense Business Operations Fund Financial Statements, 6/28/95	Improve procedures and training at TRANSCOM regarding Vessel Information Planning & Analysis System (VIPIS).	VIPS migrated to Operations Asset Management System, which was finally implemented 1/99. MSC selected new financial system (Oracle Financial) to validate expense accrual info. Target completion date is 5/00.
	96-038 Debt Collection and Deposit Controls in the Department of Defense, 12/11/95	Awaiting revision to Standard Accounting and Reporting System (STARS) to properly report DFAS accounts receivables for contractor debts.	Programming difficulties for accounts receivables module to STARS has caused delays.
	96-049 Contract Administration Services for Foreign Military Sales (FMS), 12/20/95	Establish controls to ensure reconciliation of payments recorded in the standard accounting and reporting system (STARS) to payments reported for FMS case lines.	STARS modifications bumped by other priorities, such as Y2K issues. Manual reconciliation will continue until implementation of the Defense Security Assistance Management System, expected by the end of FY 02.
	96-141 Overdisbursed and Unreconciled DoD Contracts at the Defense Finance and Accounting Service, Columbus Center, 6/4/96	Reduce backlog of unreconciled contracts to the equivalent of 6 months work.	Insufficient resources available and incompatible systems.
	96-145 Obligation Management of Navy Appropriations, 6/6/96	Establish performance measures that track Navy ability to record obligations within 10 calendar days.	System changes delayed by Y2K and other requirements.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Financial Management	96-159 Quick-Reaction Report on Potential Antideficiency Act Violation at the Department of Defense Education Activity, 6/13/96	Correct improper transactions posted to accounting records.	DoDEA and OIG met 9/20/99 and agreed on closure of this item. DoDEA is drafting a memo to obtain the concurrence of OUSD(C).
	96-202 Antideficiency Act Investigation of Development, Test and Evaluation, Defense, Appropriation 97 88/89 0450, 7/29/96	Reconcile undistributed disbursements for this appropriation, and resolve differences in unliquidated obligation balances.	The OIG, DOD, is evaluating documentation submitted on corrective actions taken.
	96-213 Financial Accounting at the National Security Agency, 8/20/96	Update accounting methods.	Revision to accounting system continues.
	97-077 United Nations (UN) Reimbursement for DoD Troop Contributions, 1/21/97	Determine cost elements to be included in incremental costs, and revise Financial Management Regulation on the processing of UN reimbursements.	Cumbersome policy making process.
	97-131 Financial Management at the DoD Education Activity, 4/17/97	Perform resource reviews; establish followup on billing reviews; issue an energy management directive.	Lack of management priority.
	98-030 Hotline Allegations on Army National Guard Appropriations, 12/3/97	Establish administrative obligations for overaged unmatched disbursements.	Army National Guard has not made this a priority.
	98-031 The DoD Contract Fund Reconciliation Process, 12/5/97	Revise Financial Management Regulation to define roles and responsibilities for contract reconciliation.	Cumbersome policy making process.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Financial Management	91-055 Pricing and Billing of Stinger Missiles Sold to Foreign Military Sales (FMS) Customers, 2/27/91	Revision to Volume 15 of the Financial Management Regulation on the calculation of packing, crating and handling costs for FMS.	Complex coordination process and insufficient priority.
	94-048 Transactions By and For Others, 3/2/94	Changes to policy guidance to include procedures for cross disbursing and transactions for others.	Cumbersome policy making process.
	90-074 Reserve Components Common Personnel Data System, 5/25/90	Finalize an agreement to assess and collect penalties associated with Reserve members' education benefits.	DoD and VA agreement via DoDINST. 1322.17 "Montgomery GI Bill-Selected Reserve" is expected to be finalized by 12/99. Also, an automated collection system is still under development.
Weapon System Acquisition	92-020 Aerial Target Systems, 12/31/91	Implement guidance for validating extent to which aerial targets replicate threats.	DoD, Army, Navy and BMDO have issued guidance; Air Force in process.
	93-067 Use of Contractor Cost and Schedule Control System (C/SCS) Data, 3/11/93	DCAA Audit Program revision to consider C/SCS criteria.	Revisions to C/SCS guidance precluded final changes to audit program. Corrective actions continuing. Est. Completion 12/99.
	96-014 Acquisition of the Theater High Altitude Area Defense Program, 10/23/95	Implement multi-year procurement strategy and component breakout.	Both actions tied to Defense Acquisition Board Review schedule, which has slipped. Reviews planned for April 2000.
	97-018 The Patriot Advanced Capability - 3 Program, 11/4/96	Update Test & Evaluation Master Plan.	Changes to the Test & Evaluation Master Plan are being worked for Nuclear, Biological and Chemical contamination and survivability.
	97-214 Live-Fire Test and Evaluation of Major Defense Systems, 9/9/97	Revise regulations to provide guidance on requesting waivers and on recommending programs for testing.	Acquiring contractor support, lengthy document coordination process, and policy issues have all caused delays. Cumbersome policy making process.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Procurement Issues	93-163 Procurement Prices Paid on Aircraft Weapon Systems for Foreign Military Sales, 9/2/93	Revise Volume 15 of the Financial Management Regulation to clarify the special provisions for RDT&E.	Complex coordination process used in revisions and insufficient priority.
	94-045 Life Reductions of T700 Aircraft Engine Components, 2/25/94	Produce calculated interim life limits.	The Navy is in the process of preparing formal reply and will provide copies of Naval Messages that were issued to implement recommendations.
	95-304 Quick-Reaction Report on the F-16 Multinational Fighter Program Case Closure Process, 9/11/95	Revision to regulations to require retention of FMS records until 10 years after case closure.	Cumbersome policy making process.
	96-195 Engine Monitoring Systems for Jet Aircraft Engines, 7/17/96	Initially, contractor was working the issue. Currently, a working group is tasked to develop accounting methods for maintenance costs related to engine monitoring systems.	Accounting system to collect cost data is being implemented, estimated completion 12/99. Training courses will be revised, tested, and completed by 5/00.
	95-062 Small Business Administration Section 8(a) Support Services Contracts at the Ballistic Missile Defense Organization, 12/30/94	Determine fair and reasonable prices for subcontract costs, and seek recovery of any overpayments.	A subcontractor is in the process of submitting to the prime contractor final costs on two contracts. DCAA will then be requested to audit the cost submissions.
	95-295 DoD Reporting and Controls for Contracted Support Services (CSS), 8/21/95	Revision of DoD Directive 4205.2, initially to clarify responsibilities for identifying CSS, and now to bring it into conformance with the FY99 Defense Authorization Act.	Changes in legislation and government policy have affected revision. Directive revision has been suspended. GAO is to review CSS reporting. OSD is seeking to eliminate the reporting requirement.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Procurement Issues	96-035 Price Challenges on Selected Spare Parts, 12/12/95	DLA require contracting officers to obtain independent government estimates for negotiated procurements.	Difficulties in establishing a uniform electronic data format for all Services. Objectives are now being pursued without standardization of electronic systems, using local initiatives.
	96-087 Acquisition Process for Metalworking Machinery, 3/26/96	Revise acquisition regulations to address industrial plant equipment as recommended in the report.	Revision of DoD regulations is held in abeyance pending update of Federal regulations.
	97-003 The Defense Logistics Agency Value Engineering Program, 10/9/96	OUSD (AT&L) publish guidelines on use and reporting of value engineering.	Draft guidelines awaiting approval for incorporation into DoD Value Engineering Strategic Plan and DoD Acquisition Deskbook, insufficient priority.
	97-121 The Navy Value Engineering Program, 4/9/97	OUSD (AT&L) publish guidelines on use and reporting of value engineering.	Draft guidelines still awaiting approval for incorporation into DoD Value Engineering Strategic Plan and DoD Acquisition Deskbook, insufficient priority.
	97-133 Acquisition and Exploitation of Foreign Materiel by DoD Components, 4/21/97	Revise DoDD-S-3325.1 to furnish guidance on prioritizing foreign materiel requirements.	Cumbersome policy making and coordination process.
	98-005 Use of Foreign Materiel Exploitation Results, 10/8/97	Revise applicable Air Force directives to provide guidance on when to revalidate models and threat simulators.	Cumbersome policy making process and insufficient priority.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Procurement Issues	98-047 Use of Foreign Comparative Testing Program Funds for the BOL Expendable Countermeasures Dispenser, 1/15/98	Completion of test plan and approval of funding for the BOL Expendable Countermeasures Dispenser.	Unexpected test delays and deletion of funding from the FY00 POM input, requiring reprogramming of funding for FYs 01 & 02.
	98-064 Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-93-G-M111, 2/6/98	OUSD (A&T) provide guidance on pricing sole-source commercial items. DLA implement contracting to obtain price breaks on future Sundstrand contracts.	OUSD (AT&L) is developing a parametric cost estimating handbook. The handbook is to be available in January 2000. DLA negotiating contract with Sundstrand. Price breaks have not been determined.
	98-088 Sole-Source Prices for Commercial Catalog and Noncommercial Spare Parts, 3/11/98	DLA obtain and analyze data submitted from hardware inventory control points (ICP) to determine what potential monetary benefits could be realized from FY 1998-2003 as a result of paying competitive prices for commercial items.	ICPs data has been received and is being analyzed by DLA's Operations Research Group.
	99-026 Commercial Spare Parts Purchased on a Corporate Contract, 10/30/98	DLA establish equitable business relationships with contractors using commercial business practices that lower product costs, reduce support infrastructure and improve delivery. Establish metrics to evaluate performance to determine if the contract provides the intended acquisition reform measures and associated savings to customers.	An OSD Rapid Improvement Team (RIT) has been formed to address issues between DLA and Allied Signal Incorporated. Open recommendations included in this report and OIG Report No. 99-218 will be addressed.
	99-116 DOD Use of Multiple Award Task Order Contracts, 3/31/99	Gather data from Service Acquisition Executives on use of multiple award task order contracts and evaluate the need for new policy.	Time required for data gathering and analysis.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Procurement Issues	99-218 Sole-Source Noncommercial Spare Parts Orders on a Basic Ordering Agreement, 7/27/99	<p>OUSD (AT&L) issue guidance on the use of price-based acquisition (PBA) procedures.</p> <p>DLA develop pricing and contracting improvements to obtain better prices on sole-source non-commercial spare parts on future contracts with Allied Signal.</p>	<p>OUSD (AT&L) will determine whether guidance on PBA is appropriate after completion of Integrated Product Team (IPT). OUSD (AT&L) IPT's draft report due out shortly. However, based on number of comments, report may not be published until early 2000.</p> <p>An OSD Rapid Improvement Team (RIT) has been formed to address issues between DLA and Allied Signal. Open recommendations included in this report and OIG Report No. 99-026 will be addressed.</p>
	92-100 Medical Disability Discharge Procedures, 6/8/92	Complete implementation of Joint Disability Tracking System.	Service-level implementation in process following lengthy system development efforts exacerbated by funding problems.
Health Care	93-072 Defense Officer Personnel Management Act for Medical Officer Pay and Entitlements, 3/22/93	Army submit its regulations governing Boards for the Correction of Military Records to OSD for approval, and publish regulations.	The Army submitted its regulation 15-185 for review. The OSD approved it and the regulation is currently at the printers but has not yet been published
	96-207 Evaluation of the Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS), 8/6/96	Implement information resource management review and monitoring; accredit all OCHAMPUS information systems.	Implementation delayed by other operational priorities and Megacenters relocation.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Health Care	97-060 Economic Impact of the Use of Tobacco in DoD, 12/31/96	OUSD (P&R) establish pricing policy to eliminate deep discounts on tobacco products sold in DoD retail outlets.	Draft policy continues to be delayed due to political sensitivity. Meanwhile, DoD is developing Tobacco Use Prevention Strategic Plan which includes price increase as a goal.
	97-147 Reporting Graduate Medical Costs, 5/23/97	Develop and implement system change to breakout Graduate Medical Education costs.	Medical expense and performance reporting systems Internal Control Program and metric standards under development.
	97-170 Medical War Reserves for US Forces, Korea, 6/19/97	Complete Medical Logistics Interservice Support Agreement.	Extensive coordination needed.
Supply Inventory Management	95-142 Management of Access to the DoD Supply System, 3/10/95	Air Force automating the update and maintenance of the property administrator's address table to ensure access to the Government Furnished Material status report.	Ongoing efforts related to Y2K continue to hamper the implementation of the automation change.
	95-238 Administrative Lead Time at DoD Inventory Control Points, 6/15/95	Automate methodology for determining Administrative Lead Time in the Purchase Request Process System.	Automation delays.
	95-303 Management of Common Use Repairable Items in the Department of Defense, 9/1/95	Improve Primary Inventory Control Activities (PICA) asset visibility over Secondary Inventory Control Activities (SICA) to avoid purchases of material already in stock.	Air Force & Marine Corps have not yet achieved PICA/SICA visibility due to program changes required and financial system interface problems.
	96-088 Inventory at the Defense Mapping Agency, 3/26/96	Ensure that inventory valuations are based on historical costs, and that unit costs are adjusted in the DLA records for products when reproductions are made that change the unit cost.	Inventory valuations and unit cost adjustments will be made when DFAS develops standard software for cost accounting in DoD. In the interim, NIMA is studying alternatives for accomplishing cost accounting.

STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE OPEN AUDIT RECOMMENDATIONS (As of December 1, 1999)			
High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Supply Inventory Management	97-014 Controls Over the Return of Repairable Assets, 11/1/96	Establishment of standard reporting procedures for contractors to report receipt transactions for repairable assets.	Reprogramming for web-based Commercial Asset Visibility II Capability scheduled for implementation 2nd Qtr FY 2000.
	97-213 Evaluation of the Disposal of Munitions Items	Develop standard DoD-wide guidance for the entire munitions scrap disposal process.	Delays in publishing the Defense Material Disposal Manual and the Defense Demilitarization Manual.
	99-029 Property Disposal Management Controls, 11/31/98	OUSD (AT&L) lead the review of in-transit-to-disposal process to identify cost effective improvements to ensure accountability of property at all times.	September 1999 report to Congress did not address the issue. OUSD (AT&L) expects to issue a report on the review of in-transit-to-disposal process by March 31, 2000.
Other Infrastructure Issues	93-118 Quality Assurance for Organic Depot Maintenance of Aircraft, 6/21/93	Make improvements to quality assurance program procedures and tracking systems.	Both systems to be used to address Air Force problems were discontinued by DoD, partly due to funding constraints. Options for alternative system being explored.
	92-078 DoD Base Realignment and Closure, 4/17/92	DoD Directive/Instruction addressing facility requirements criteria being drafted by OUSD (A&T).	Delays in drafting and coordinating policy
	95-151 Management of Utility Sales, 3/21/95	Issuance of policy on management of utility sales.	Staff turnover and resistance from morale, welfare and recreation community. Cumbersome policy making process.
	96-054 Management and Administration of the United States Military Academy, 1/5/96	Update support agreements and strengthen controls over overtime policies and practices.	Agreements in process and workforce issues being addressed.
	97-156 DoD Support for the 1996 Paralympics and Centennial Olympic Games, 6/9/97	Ensuring accountability of Special Events equipment.	Lack of management priority.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Other Infrastructure Issues	97-175 Management of the DoD Personal Property Shipment and Storage Program, 6/23/97	Improve management systems and controls used for managing DoD Personal Property Shipment and Storage Program.	In accordance with final Defense Transportation Regulation, MTMC plans to fully implement staff assistance visits by 12/99.
	98-006 DoD Family Housing Requirements Determination, 10/8/97	Development of a standardized requirements determination process.	Time consuming data collection and analysis initiative.
	98-080 Unaccompanied Enlisted Personnel Housing Requirements for Naval Station San Diego, California, 2/23/98	Adjustments to a computer program and issuance of guidelines to reflect the new "1+1" barracks construction standard.	Lengthy document coordination process and other priorities for computer reprogramming have caused delays.
Readiness	95-021 Defense Hotline Allegations Regarding DoD Fielding of Chemical Protective Masks, 11/2/94	Conduct Two year Pilot Retail Chemical Mask Surveillance Study;	Study completed and Pilot Program Report issued August 1999. Joint service integration group process action team evaluation in process.
	95-057 Spares and Repair Parts Affected by Design and Engineering Changes, 12/16/94	Air Force reviewing existing policy and developing modification policy/process changes.	Air Force reinvention team assigned to address the modification process. One of the products will be new Air Force policy Directive/Instruction on Modification Management.
	96-029 Inspection of the Department of Defense Joint Manpower Process, 11/29/95	Issue joint regulation on manpower management.	Cumbersome policy making process.
	97-021 Bulk Petroleum War Reserves for U.S. Forces Korea, 11/6/96	Implement improvements in petroleum contingency planning.	Actions to address personnel, equipment and infrastructure requirements ongoing.
	97-138 Requirements Planning and Impact on Readiness of Training Simulators and Devices, 4/30/97	Revision of DoD Directive 1430.13 and other policy to evaluate the effectiveness of simulation training.	Cumbersome policy making process. Corrective actions continuing.

**STATUS OF OIG, DoD, REPORTS WITH SIGNIFICANT OVERDUE
OPEN AUDIT RECOMMENDATIONS
(As of December 1, 1999)**

High Interest Area	Report Number/Title/Date	Description of Action	Reason Action Not Completed as of 12/01/99
Readiness	97-173 Management and Administration of International Agreements in the US Pacific Command, 6/23/97	Revision of DoD Directive 5530.3 to require all activities negotiating within a Unified Command's area of responsibility to advise that Command of the subject agreement.	Interim guidance was issued September 1997; formal revision date not yet established due to difficulty in coordinating.
	97-217 Chemical and Biological Defense Readiness, 9/19/97	Air Force reactivate survivability management status report procedures to monitor survivability of mission-critical equipment	Air Force has established a team to evaluate the value of maintaining survivability reports.
	98-117 Ammunition War Reserves for U.S. Forces, Korea, 4/23/98	Ensure adequate levels of personnel and equipment support for ammunition distribution.	PACAF is implementing changes to enhance container outload capability.
	98-174 Unit Chemical and Biological Defense Readiness Training, 7/17/98	Improve emphasis and reporting on unit chemical and biological readiness.	Air Force has developed plan of action and milestones. Navy implementation is seriously overdue.
	99-045 Chemical and Biological Warfare Defense Resources in the U.S. Pacific Command, 12/31/98	Improve operational planning, management of equipment and medical resources, and training of essential civilian personnel.	Long-term corrective actions are ongoing.

Failing Programs

During the past year, the OIG, DoD, has reviewed two programs that failed: the Defense Commissary Information System and the Army Ground Based Common Sensor System (Light). In both cases, requirements outpaced available technology and there was inadequate management oversight. The programs were terminated by the Defense Commissary Agency and the Army, respectively.

We are not aware of other current programs whose performance is so questionable that they can be termed failing, although it must be stressed that audit coverage has been severely limited in many areas and there may well be numerous troubled projects, especially in the areas of acquisition and information technology management. It is clear from available audit results, however, that the Department has so far failed to achieve broad goals related to financial reporting, effective information technology investment oversight, information assurance, and achieving necessary economies throughout its support operations. Moreover, it will take several more years for the numerous ongoing improvement efforts in all major functional areas to be completed. Unless effective oversight is applied to ensure the success of those efforts, some may result in only marginal improvement or none at all. If generally positive results were achieved, on the other hand, improved effectiveness and efficiency would be evident in all DoD management areas.

Related Reports

IG, DoD, Report No. 99-183, Acquisition Management of the Defense Commissary Information System, June 11, 1999

IG, DoD, Report No. 99-224, The Ground Based Common Sensor Program, July 26, 1999

Broad Scope Documents Used in this Analysis

In addition to the reports listed in the discussion of each problem area, the following recent reports and testimony contain useful information applicable to multiple areas.

1. Deputy Secretary of Defense Management Control Assurance Statement for Fiscal Year 1998, January 5, 1999.
2. IG, DoD, Semiannual Report to the Congress for the Period April 1, 1999 to September 30, 1999. Appendix A of the semiannual report lists all DoD internal audit reports by issue area. Chapter One discusses DoD high risk areas and Chapter Two provides information on different categories of oversight activity, including criminal investigations. Each semiannual report also discusses at least one focus area. For this report, the focus areas are Year 2000 Conversion and Contract Management.
3. IG, DoD, Semiannual Report to the Congress for the Period October 1, 1998 to March 31, 1999. Focus Areas: Chemical and Biological Defense and Bribery, Kickbacks and Corruption in DoD Programs and Operations.
4. IG, DoD, Testimony to House Subcommittee on National Security, Veterans Affairs and International Relations on DoD Vulnerabilities to Fraud, Waste and Abuse, February 25, 1999.
5. GAO/OCG-99-4, Major Management Challenges and Program Risks: Department of Defense, January 1999.
6. GAO/NSIAD-99-159, Program Planning and Evaluation Should Follow Results Act Framework, August 1999.